



**Pacific Gas and Electric Company**  
**Case No. 01-30923 DM**  
Chapter 11 Petition filed 4/6/01

**Report of Professional Fees and Expenses for Current Period (12/01/02 - 3/31/03) and  
Cumulative Case to Date (4/06/01 - 3/31/03)**

Prepared by  
Office of the United States Trustee  
San Francisco, California  
June 17, 2003

**EXHIBIT 1**

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## SUMMARY

### ● Current & Cumulative Fees and Expenses

Pacific Gas and Electric Company ("PG&E") filed Chapter 11 on April 6, 2001. This is the sixth hearing in which professionals employed in the bankruptcy case are seeking interim approval of their fees and expenses. This fee hearing generally covers the period from December, 2002 through March, 2003. The fees and expenses which are being sought for the current period and which have been incurred in the case since its inception are:

Fee Application and Period Covered		Hours	Fees	Expenses	Total	% of Total
1st	April - July, 2001	37,802.8	\$12,915,384	\$720,048	\$13,635,432	12.61%
2nd	August - November, 2001	40,235.1	14,523,083	947,596	15,470,679	14.31%
3rd	December, 01 - March, 02	53,463.0	16,967,095	975,666	17,942,761	16.6 %
4th	April - July, 2002	52,621.4	16,571,127	739,226	17,310,353	16.01%
5th	August - November, 2002	73,859.4	22,593,873	1,349,316	23,943,189	22.15%
6th	Current Period December, 02 - March, 03	59,491.5	18,311,253	1,496,514	19,807,767	18.32%
Total through March, 2003		317,473.2	\$101,881,815	\$6,228,366	<b>\$108,110,181</b>	100.00%

### ● Excluded Fees and Expenses

The **\$108.1 million total** through March, 2003 figure set forth above does not reflect all the professional fees and expenses incurred in conjunction with PG&E's Chapter 11 bankruptcy and which ultimately may be charged to the debtor. It appears the debtor has directly incurred at least an **additional \$76.2 million** related to the reorganization which brings the **total to \$184.3 million**:

~ There are certain other firms whom the debtor and the creditor's committee have hired to assist in the reorganization which have not filed formal fee applications and whose fees and expenses are excluded above. Among others, these firms include Celerity Consulting, Berger and Associates and UBS Warburg, who is serving as financing and capital market arranger for the Committee/CPUC joint plan. Both Celerity Consulting and Berger & Associates serve copies of their invoices on the Office of the U.S. Trustee. Celerity Consulting has charged **\$16.447 million** through March, 2003; Berger & Associates - **\$1.76 million** through December, 2002.

~ PG&E has filed numerous motions to incur expenses related to the implementation of its plan to dis-aggregate its operations into new entities pursuant to its proposed plan. In its March 31, 2003 Quarterly Report (10-Q) filed with the SEC on May 13, 2003, PG&E Corp. reported that the utility spent \$43 million in 2002 and approximately \$15 million in 2003 - a total of **\$58 million** towards the structural separation of its operations.

Excluded Fees and Expenses, continued:

~ The creditor's committee also filed several motions to incur expenses related to its joint plan with the CPUC.

In addition, the debtor's parent may seek reimbursement for its costs incurred as a co-proponent of the plan:

~ PG&E Corp., the utility's parent and co-proponent of the utility's proposed plan, is represented by reorganization professionals including Weil, Gotshal, & Manges LLP, Dewey Ballantine LLP, Professor Laurence Tribe and others who have participated in plan formulation, preparation of the disclosure statement, plan prosecution, regulatory implementation, regulatory proceedings, appeals and key litigation. According to Pacific Gas & Electric Company's disclosure statement, its parent may seek reimbursement for the costs it has incurred in conjunction with the reorganization of the utility. (See Pacific Gas and Electric Company's disclosure statement, dated 4/19/02 - Section X.11 - *Summary of Other Provisions of the Plan - Fees and Expenses*.) As of 4/19/02, the parent estimated that it would seek reimbursement for fees and expenses of approximately **\$110 million** - \$75 million of which was estimated legal fees, \$23 million - financing costs, and \$12 million - accounting fees.

- Electronic Transmission of Detailed Time and Expense Entries

With a few exceptions, the firms employed in the PG&E case are submitting their detailed time and expense entries to the Office of the U.S. Trustee in electronic form. The electronic transmission of fees has expedited the review process, afforded the opportunity for in-depth analysis, and resulted in the ability to provide the court and interested parties with a comprehensive overview of the fees incurred in the case.

- Key Events and Substantive Issues (December, 2002 - March, 2003)

The firms' fee narratives provide synopses of key matters which each firm addressed between December, 2002 and March, 2003. Some of the key events and substantive issues were:

**Confirmation Trial.** The 11-day confirmation trial for the CPUC, which commenced on November 18, 2003, concluded on December 9, 2003. The confirmation trial for PG&E's plan commenced on December 16, 2003 and continued for fourteen pre-scheduled days through February 18, 2003 before being stayed in favor of a judicially supervised settlement conference. (See below.)

**Series of Modifications to PG&E's Plan.** During the subject billing period, PG&E modified its plan four times with the most significant modification being filed on February 24, 2003. The February 24<sup>th</sup> plan modification addressed new conditions placed upon the debtor, its parent and the successor entities proposed in the plan (Etrans, Gtrans, and Gen) by Standard & Poor's in a updated preliminary rating evaluation of the debt securities to be issued under PG&E's plan. S&P required that (a) the reorganized debtor and the three new entities reduce their collective debt by approximately \$615 million in aggregate from the levels in the existing plan and that PG&E Corp. be prepared to contribute up to \$700 million of additional capital if necessary to reach the debt reduction goal; and (b) that the reorganized debtor and the new entities be willing to issue secured rather than unsecured debt securities. At a status conference on February 27, 2003, the creditors' committee and other parties requested the court to order PG&E, the CPUC, and other objecting parties to a judicially supervised settlement conference.

**Judicial Settlement Conference & Staying of the Confirmation Trial.** On March 4, 2003, the court issued an order requiring the parties to participate in a judicial settlement conference overseen by the Honorable Randall Newsome. On March 11, 2003, at Judge Newsome's request, the bankruptcy court entered an order staying the confirmation hearing and its related proceedings for 60 days. On April 23, 2003, the court continued the stay for an additional 30 days. A status conference is currently scheduled for June 20, 2003.

**Antitrust Claims Estimation Trial.** The Northern California Power Agency and its members - including the City of Palo Alto (The "Objectors") - objected to PG&E's plan asserting that the plan is not feasible because it fails to provide for certain damages stemming from contingent, unliquidated anti-trust and unfair competition claims based on PG&E's alleged breach of the "Stanislas Commitments". The Objectors assert they are entitled to over \$1 billion in antitrust damages, before trebling. Their claims would also affect the CPUC's plan. In late November, 2002, PG&E, the Objectors, and the CPUC entered into a stipulation in which they agreed to expedited discovery and an abbreviated trial to determine what amount of damages, if any, PG&E should project in their plan for feasibility purposes only. The estimation stipulation provided for a 3-day trial with a maximum of 5 percipient witnesses and three expert witnesses per party. The estimation trial took place on January 27, 28, and 29, 2003. Proposed findings of fact and conclusions of law were submitted on March 26, 2003. On May 15, 2003, the Honorable Dennis Montali's memorandum decision and order were entered. The court found that the Objectors' claims have no value for purposes of feasibility under 11 U.S.C. §1129(a)(11).

**Filed Rate Case Appeal.** On March 10, 2003, the Ninth Circuit heard oral argument in the "filed rate case appeal". [Background: Prior to filing Chapter 11, PG&E sued the CPUC to allow the utility to recover its escalating wholesale costs under the federal filed rate doctrine. On July 25, 2002, a United States District Court judge denied various motions for summary judgment and motions to dismiss PG&E's filed rate case and set the case for trial. On August 23, 2002, the CPUC, et al. appealed the 7/25/02 District Court order to the Ninth Circuit based on the Eleventh Amendment and the Johnson Act, 28 U.S.C. §1342. On September 4, 2002 the defendants filed a motion in District Court to stay proceedings pending their appeal. PG&E filed a motion arguing against the stay which was granted. Thereafter, on October 23, 2002, the CPUC, et al. filed a motion in the Ninth Circuit to stay proceedings in the District Court pending their appeal. On 11/21/02, the Ninth Circuit granted the CPUC's motion staying the trial in the District Court.]

**Preemption Appeal.** The Ninth Circuit Court of Appeals heard oral argument on May 14, 2003 on the "preemption appeal". [Background: On August 30, 2002, the U.S. District Court ruled in favor of PG&E in its appeal of the bankruptcy court's March 18, 2002 order disapproving PG&E's disclosure statement based upon the Hon. Dennis Montali's February 7, 2002 "express preemption" decision. The bankruptcy court had found that bankruptcy law did not expressly preempt but could impliedly preempt non-bankruptcy laws under certain circumstances. The District Court ruled that the bankruptcy code expressly preempts "non-bankruptcy laws that would otherwise apply to bar, among other things, transactions necessary to implement the reorganization plan". On September 19<sup>th</sup>, the U.S. District Court's order was entered and the CPUC, the California Attorney General, the City & County of San Francisco and several other parties filed a notice of appeal to the Ninth Circuit. The appellees also filed a motion requesting that the U.S. District Court stay the effect of its August 30<sup>th</sup> decision pending their appeal. The U.S. District court denied the stay motion. The appellees, excluding the CPUC, then filed a motion in the Ninth Circuit to stay proceedings in the District Court; it was also denied.]

● Key Events and Substantive Issues, continued

**FERC Refund Proceedings - Market Manipulation Discovery Period Ends.** During this billing period, extensive discovery took place in FERC refund proceedings. Discovery concluded on 2/28/03. Heller Ehrman filed a report on PG&E's behalf setting forth the results of the discovery efforts. [Background: The FERC refund proceedings are the result of actions taken by the state of California and its utilities seeking (a) market relief and reform and (b) refunds for alleged overcharging during California's electricity crisis. The state of California asserts approximately \$9 billion in refunds are due the state, the utilities, and their customers. During the summer of 2001, a FERC judge presided over settlement negotiations between power sellers, the state and the utilities - to no avail. A "refund trial" proceeded in two phases - the first in 3/02 and the second in 8 & 9/02. In 8/02, the U.S. Court of Appeals for the Ninth Circuit issued an order remanding issues related to the refund trial to the FERC. Specifically, the FERC would need to allow additional evidence related to potential market manipulation by sellers. On 11/20/02, the FERC initiated a 100 day period of discovery regarding market manipulation. In 12/02, the FERC trial judge preliminarily found that refunds of only \$1.8 billion were due based on a certain methodology which is currently being contested.]

**Claims Resolution.** During this period, the claims resolution process continued. In its March 31, 2003 10Q filed with the SEC on May 13, 2003, PG&E Corp. reported that the utility has estimated its liabilities subject to compromise at \$9.4 billion and its long-term debt at \$3 billion. Approximately \$50.1 billion in claims were filed in the bankruptcy case. The quarterly report summarized the status of claims as follows: "Of these claims, approximately \$26.5 billion have been disallowed or withdrawn. Of the remaining \$23.6 billion of filed claims, pursuant to the Plan and alternative plan (...), claims asserted in the amount of approximately \$5.5 billion are expected to pass through the bankruptcy proceeding and be determined in the appropriate court or other tribunal during the bankruptcy proceeding or after it concludes. ... The Utility has objected to approximately \$1 billion of the remaining \$23.6 billion of filed claims. ... The Utility intends to object to approximately \$4.4 billion of the remaining \$23.6 billion of filed claims. These objections relate primarily to generator claims. Generator claims could be reduced significantly based on the FERC's March 26, 2003, decision finding that electricity suppliers significantly overcharged California buyers, including IOUs, from October 2, 2000 to June 20, 2001."

● “Focus Areas”

The Office of the U.S. Trustee has defined certain focus areas which generally correspond to the substantive billing matters and key issues set forth above. Using the professionals’ billing categories when available and extracting information by sorting techniques when not readily available, the Office of the U.S. Trustee has combined the firms’ fees associated with each focus area to approximate the overall cost of each matter. Based on the method employed by the Office of the U.S. Trustee, the fees incurred for the subject billing period and case to date in various key matters in the case are as follows:

FOCUS AREA (As defined by U.S. Trustee)	Cumulative to Date (4/6/01 - 3/31/03)		Current Period (12/02 - 3/03)	
	Hours	Fees	Hours	Fees
Impasse between PG&E, CPUC, et al	50,968.7	\$15,684,550	6,250.4	\$1,851,832
<i>Above includes Federal Filed Rate Case</i>	19,555.3	\$5,375,785	3,662.5	\$967,590
Mediation (2 <sup>nd</sup> attempt commenced 3/03)	467.9	247,348	74.1	41,271
PG&E’s Plan	92,012.7	\$35,644,146	20,335.2	\$6,689,112
<i>Above includes Preemption Appeal(s)</i>	5,655.7	1,679,674	428.7	126,020
<i>Above includes Antitrust Claims Mini Trial - Howard Rice portion only</i>	8,378.7	\$ 2,309,945	5,418.9	\$1,451,781
Confirmation Related Discovery	26,489.5	\$ 7,076,821	3,453.0	995,073
CPUC’s Plan (through 7/02)	2,375.4	\$ 1,010,195	0	0
Joint CPUC/OCC Plan (8/02 & forward)	8,070.4	\$ 4,619,408	1,859.5	\$1,474,235
Qualifying Facilities/Producers	10,711.9	\$ 3,104,262	413.0	131,738
Other Regulatory Matters	50,805.0	\$13,849,436	16,251.2	\$4,342,974
<i>Above includes FERC Refund Proceeding</i>	26,597.0	\$6,895,505	12,383.1	\$3,223,402
Claims Analysis, Review & Resolution	24,310.2	\$ 5,805,299	4,579.8	\$1,122,714
General Bankruptcy Matters	31,404.5	\$ 7,157,584	4,080.2	\$ 782,646
Creditor Committee Alternatives	422.9	\$ 210,572	0	0
Creditor Committee Matters	4,068.2	\$ 1,962,115	124.7	\$ 65,979
Adv. Proceeding re Vote Solicitation	48.4	\$ 18,374	0.3	122
Other Matters (including General Operations)	14,733.1	\$4,905,629	2,070.2	\$ 783,359
Innisfree - Voting Agent	584.5	\$ 586,076	0	30,198
<b>TOTAL</b>	<b>317,473.3</b>	<b>\$101,881,815</b>	<b>59,491.6</b>	<b>\$ 18,311,253</b>

● **Attached Exhibits**

A Summary of Fees - All Firms

B Most Active Attorneys - All Firms - December, 2002 through March, 2003

C Percentage Changes in Fees from Current Billing Period vs. Previous Billing Period s (Primary Professionals)

D Summary of Fees - by Focus Areas

Supportive Schedules to Exhibit D

D-1 Focus - Impasse between the Utility & the State

D-2 Focus - Competing Plans, Discovery & Trials

D-3 Focus - PG&E's Plan

D-4 Focus - Qualifying Facilities, Producers, Suppliers

D-5 Focus - Other Areas Including Claims, General Bankruptcy Matters, Other Regulatory

E Howard, Rice, Nemerovski, Canady, Falk & Rabkin

E-1 Howard Rice by Focus Area

E-2 Howard Rice Top Billing Categories

E-3 Howard Rice by Attorney

E-4 Howard Rice Expedited Discovery & Abbreviated Estimation Trial (Antitrust Claims)

F Heller Ehrman White & McAuliffe LLP

F-1 Heller by Focus Area

F-2 Heller by Attorney

F-3 Heller Ehrman Fees - Filed Rate Case

F-4 Heller Ehrman Fees - FERC Refund Proceedings

G Cooley Godward LLP

G-1 Cooley by Focus Area

G-2 Cooley by Attorney

H Milbank, Tweed, Hadley & McCloy LLP

H-1 Milbank by Focus Area

H-2 Milbank by Attorney

H-3 Milbank Most Active Attorneys

I FTI Consulting, Inc. (formerly Pricewaterhouse)

I-1 FTI by Focus Area

I-2 FTI by Accountant

I-3 FTI - Summary of Services Performed by Accountant

J Skadden, Arps

J-1 Skadden by Focus Area

J-2 Skadden by Attorney